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SUBJECT: BELARUS: REGIME STRENGTHENS RUBLE AGAINST U.S. DOLLAR

1. At various times over the past few years, rumors have circulated about the possibility that the Belarusian ruble (BYR) would be devalued. However, recent international economic trends and domestic conditions are pushing things in the opposite direction.

2. According to official statistics, Belarus' economy has been developing steadily in the first six months of 2008, with GDP growth over 10 percent, and the country's hard currency reserves increasing by more than 11 percent to USD 5.5 billion. Assets of the Belarusian banks have grown by USD 4.4 billion to a total of USD 24.1 billion. The refinance rate is 10 percent.

3. The domestic currency market is stable, as supply of cash hard currency is higher than demand. Leonid Zayko, an independent economic analyst, believes that as many as one million Belarusians work abroad and remit up to USD 6 billion a year.

4. In this environment, and given the relative weakness of the U.S. dollar (USD), the National Bank has decided the time is ripe to strengthen the Belarusian ruble. Since January 2008, it has become 1.5 percent stronger against the dollar. While the centrally fixed rate has remained essentially unchanged for over two years (in the BYR 2,130-2,150:USD 1 range), in July the rate was set at 2,118:1 and the plan for late 2008 is reportedly 2,100:1. The 2009 rate, according to some estimates, may be as low as 2,000:1, which would be about a six percent drop in USD value here over last year. Compared to the dramatic weakness of the USD against the Euro, this is not significant, but the GOB decision to strengthen the ruble speaks to a degree of long-term economic confidence.

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